

# CITY OF SAN JOSE

## 2004-2005 PROPOSED OPERATING BUDGET

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### BUDGET POLICIES

The Operating and Capital Budgets and the Capital Improvement Program are prepared and administered in accordance with several sources of policy direction. First, the City Charter requires that the budgets are balanced, include a complete financial plan for all city funds, and meet certain legal deadlines for submittal. Second, the City Council has established budget policies. These policies include guidelines, standards, and requirements for preparation and monitoring of both the Operating and Capital Budgets. The complete text of the adopted budget policies follows. Third, the budgets are developed in accordance with the Mayor's budget priorities and direction as approved by the City Council in March and June of each year. Fourth, recommendations of special studies by Council-appointed task forces, boards, commissions, and committees may be considered upon the direction of the City Council. Finally, public input is considered throughout the process, with scheduled public hearings at key Council decision points.

#### **A. Operating Budget**

##### ***1. Overall***

The budget should be a performance, financing, and spending plan agreed to by the Mayor, City Council, City Manager and other Council Appointees, and Department Heads. It should contain information and data regarding expected revenues (inputs), expected expenditures and expected performance (outputs). During the fiscal year, actual experience (revenues, expenditures, and performance) will be periodically measured against the plan.

The City will prepare and annually refine written goals and policies to guide the preparation of financing, spending, and performance plans for the City budget. Proposed budgets will comply with the adopted budget policies and Council priorities.

The City uses a performance-based budget. The core service is the lowest level in the organization for which budgets are prepared. Each core service budget will include financing and spending plans. Each core service will also propose an annual performance plan. The plan must identify ongoing performance targets and corresponding indicators, which measure performance. The plan should also include specific performance targets, which will have results during the budget year. All performance at the core service level must be consistent with the mission statements at the department level and the outcomes of the City Service Area at the City level, meeting the performance as well as budget goals and policies established by the Mayor and City Council.

Department and program managers will not exceed the Council-approved appropriations in any fund. Appropriations for departmental operations are approved by Council in two categories: Personal Services and Non-Personal/Equipment. These appropriations are shown in the departmental budgets. In addition, appropriations are approved for Capital Projects, City-Wide projects, and other targeted functions within special and capital funds. The City Council may approve modifications to these appropriations throughout the year as warranted by revenue collections and activity demands.

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### BUDGET POLICIES (CONT'D.)

#### A. Operating Budget (Cont'd.)

##### **2. *Fiscal Integrity***

The City will maintain the fiscal integrity of its operating, debt service, and capital improvement budgets, which provide services and maintain public facilities, streets, and utilities.

Ongoing operating program costs will not exceed the amount of ongoing revenue to finance those costs. The ongoing revenue source will be identified along with new program costs. Any available carryover balance will only be used to offset one-time costs.

##### **3. *Contingent Accounts***

Three different contingency accounts should be established:

###### a) Contingency Reserve

For the General Fund, a contingency reserve amount, which is a minimum of 3% of the operating budget, is established. The purpose of this reserve is to meet unexpected circumstances, such as a General Fund revenue shortfall.

Appropriate levels of contingency funds will be determined and maintained in the capital and special funds.

###### b) Earmarked Reserve

Create an earmarked reserve for known but unspecified expenses that can be spent throughout the year as Council authorizes.

###### c) Emergency Reserve

An adequate emergency reserve (Fund 406), as mandated by the City Charter, shall be determined and maintained.

##### **4. *Fund Balance***

The appropriation of carryover fund balance must be approved judiciously. This should ensure that ongoing expenditures will be budgeted only to the extent that proven revenue streams exist.

In the annual budget, and in subsequent reports, there will be a presentation on fund balances and their anticipated uses.

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## **2004-2005 PROPOSED OPERATING BUDGET**

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### **BUDGET POLICIES (CONT'D.)**

#### **A. Operating Budget (Cont'd.)**

##### **5. *Mid-Year Adjustments***

Mid-year budget adjustments recommended by Council Committees, Task Forces, or the full Council, should be referred to the Mid-Year Budget Review or the Annual Budget Process for consideration along with other competing budget needs and priorities. In general, ongoing budget changes should be dealt with during the Annual Budget Process while one-time budget changes may be considered during either the Mid-Year Budget Review or during the Annual Budget Process. Exceptions to this policy must be reviewed by the City Manager and Mayor.

The authority to make expenditures in accordance with a City Council approved spending plan is only valid as long as the receipt of revenue for the budgets is equal to or greater than estimated expenditures.

All appropriation amendments and revenue estimate changes will be reported in the monthly financial report.

##### **6. *Overhead Cost Allocation***

All overhead costs shall be allocated to the appropriate program within the limits of State and Federal laws.

##### **7. *Budget System***

The City will maintain a budget control system to adhere to the budget.

There will be delivery of a proposed budget, in accordance with the adopted budget schedule, which accurately depicts the financial condition and goals of the City. This budget should be in a form that enables decision makers to set the direction and policy of the City.

The proposed budget will illustrate the General Fund, special funds, and capital funds so that the entire resources of the City may be comprehensively viewed for decision making. Decision making for capital improvements will be coordinated with the operating budget to make effective use of the City's limited resources for operating and maintaining facilities.

The annual appropriation ordinance will include the adoption of the annual revenue estimates.

Budget detail shall contain line item detail for the program spending plan, a personnel summary report listing the types of positions for each program, and a corresponding program performance plan. It shall also contain department and fund summaries for spending and personnel as well as a detailed financing plan for the program.

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**BUDGET POLICIES (CONT'D.)**

**A. Operating Budget (Cont'd.)**

**8. *Debt***

The City Council adopted a Debt Management Policy that establishes the following equally important objectives:

- a) Minimize debt service and issuance costs;
- b) Maintain access to cost-effective borrowing;
- c) Achieve the highest practical credit rating;
- d) Full and timely repayment of debt;
- e) Maintain full and complete financial disclosure and reporting;
- f) Ensure compliance with applicable State and Federal laws.

**9. *Self Insurance***

The budget will provide for the adequate funding of the City's self-insurance funds.

**10. *Capital and Equipment Maintenance***

The budget will provide for the adequate maintenance of capital plant and equipment and for their orderly replacement.

**11. *Retirement***

The budget will provide for the adequate funding of all retirement systems.

**12. *Monthly Report***

The Administration will prepare regular monthly reports comparing actual revenues and expenditures to budgeted amounts.

The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely monthly report.

All budget amendments, both revenues and expenditures, will be noted in the monthly report.

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### BUDGET POLICIES (CONT'D.)

#### A. Operating Budget (Cont'd.)

##### ***13. Multi-Year Estimates***

Each year, the City will update expenditure and revenue projections for the next five years. Projections will include estimated maintenance and operating costs of future capital improvements that are included in the capital budget.

This budget data will be presented to elected officials in a form that will facilitate annual budget decisions, based on a multi-year strategic planning perspective.

##### ***14. Performance and Productivity***

The City will integrate performance measurement and productivity indicators within the budget. Performance objectives and service levels will be submitted, prior to implementation, for all new and existing programs established during the budget process. The selection of performance standards should be made on the basis of information reliability, relevance to current year budget change proposals, and value to Mayor/Council and Manager decision making.

The City will promote the understanding that City employees are the most valuable resource of the City and their understanding and involvement in the budget process is crucial to the continued success of City government.

The City will employ good management practices when planning for service delivery by including in budget requests money to pursue activities such as:

- a) office automation and computer applications that increase productivity
- b) equipment modernization
- c) work-flow simplification
- d) risk management/employee safety
- e) preventive maintenance
- f) energy conservation
- g) life-cycle costing in purchasing of equipment
- h) lease-purchase options for high cost equipment, purchases which reduce operating expenses
- i) performance planning, reporting, and evaluation
- j) employee training

The City will prepare and evaluate program performance plans that relate to financing and spending plans in the annual City budget.

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**BUDGET POLICIES (CONT'D.)**

**A. Operating Budget (Cont'd.)**

***15. Citizen Involvement***

Citizen involvement shall be encouraged in the annual budget decision making process through public hearings and informal meetings.

***16. Distinguished Budget Presentation***

The approved budget shall be submitted to the Government Finance Officers Association for consideration in the award for Distinguished Budget Presentation. It shall also be submitted to the California State Municipal Finance Officers for their consideration.

***17. Fees***

Fees shall be set to cover 100% of the cost of service delivery, unless such amount prevents an individual from obtaining an essential service. Fees or service charges should not be established to generate money in excess of the cost of providing service.

Fees may be less than 100% if Council determines that other factors (e.g., market forces, competitive position, etc.) need to be recognized.

***18. Non-profit Organizations***

Future funding decisions regarding non-profit organizations will be based on guidelines, policies, and priorities determined by the City Council and availability of funding based on spending priorities.

The City shall execute performance contracts with those agencies that receive City funding.

***19. Master Plans***

Master plans for particular service areas brought forward for Council consideration shall include possible options for capital and operating financing. Master plans shall be required to propose funding mechanisms for all recommendations.

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### BUDGET POLICIES (CONT'D.)

#### A. Operating Budget (Cont'd.)

##### *20. Healthy Neighborhoods Venture Fund Spending Plan*

Beginning in 1999-2000, the City began receiving an estimated \$250 million over a 25-year period from the national settlement with tobacco companies. These funds shall be allocated using the following methodology as a guideline for distributing funds. Funds may be used for projects that cut across the three funding areas.

- a) Anti-Tobacco/Anti-Smoking/Health – Twenty-five percent (25%) of the settlement proceeds collected in any fiscal year shall be expended for existing or new anti-tobacco programs including, but not limited to: sales licensing; law enforcement; code enforcement; anti-tobacco public education or marketing; anti-smoking; and cessation programming and health services. The goal is to decrease the use of tobacco products and related health problems associated with tobacco use for San José residents, contributing to improved overall health for the City's population.
- b) Education/Health – Fifty percent (50%) of the settlement proceeds collected in any fiscal year shall be expended for new education programs or expansion of existing education programs, including, but not limited to: art and music education; homework centers; mentoring; school safety; gang prevention/intervention centers; and healthcare programs. These activities may be eligible to include some element of anti-tobacco programs and related funding as a part of regular programming. The goal is to improve academic success of San José students through programs that address unmet health care needs, provide for healthy developmental age appropriate activities at school sites, and pilot innovative classroom related activities and instruction.
- c) Seniors/Health – Twenty-five percent (25%) of the settlement proceeds collected in any given fiscal year shall be expended for new senior programs or the expansion of existing senior programs, which may include an element of anti-tobacco programming, and for senior discount programs for City provided services. The goal is to improve the quality of life for seniors by increasing subsidized programs and services, providing for basic health and nutritional needs, and promoting independent living through social and recreational activities.
  - Senior programs may include, but are not limited to: nutrition; senior adult day care; education; recreation; elder abuse protective services programs; and senior housing programs.
  - Senior discount programs may include discounts for sewer, garbage, transit, recreation, and other services or programs. The term discount shall mean the reduction of a fee or charge in any amount up to and including a 100 percent reduction.

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### BUDGET POLICIES (CONT'D.)

#### A. Operating Budget (Cont'd.)

##### *20. Healthy Neighborhoods Venture Fund Spending Plan (Cont'd.)*

###### c) Seniors/Health (Cont'd.)

- Funding of projects increasing the accessibility and affordability of health services for seniors shall be eligible.

#### B. Capital Improvement Program

##### *1. Fiscal Policies*

Capital project proposals should include complete, reliable, and attainable cost estimates. Based upon a thorough analysis of the project, project cost estimates for the Five-Year Capital Improvement Plan will vary in reliability depending upon whether they are to be undertaken in the first or fifth year of the Plan. Project estimates for the Five-Year Capital Improvement Plan should include the basis on which the project costs were prepared (conceptual design, master plan, etc.), and the reliability of those estimated costs.

Capital project proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project. The City Manager's Budget Office is responsible and accountable for providing Council with an accurate, comprehensive resource plan.

Changes in project estimates for the comprehensive resource plan should be fully reported to the City Council for review and approval.

Project proposals should indicate the project impact on the operating budget.

At the time of award of construction contract, each project shall include reasonable provision for contingencies:

The contingency amounts to be used for various types of projects were approved by the City Council on December 3, 2002 and are as follows:

- 5% of the total contract for street, sidewalk and park projects;
- 10% of the total contract amount for utilities and building projects;
- 15% of the total contract amount for building renovation projects; or
- Such other amount as approved by the City Council for a particular project.



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### BUDGET POLICIES (CONT'D.)

#### **B. Capital Improvement Program (Cont'd.)**

##### **1. *Fiscal Policies (Cont'd.)***

Project contingencies may, unless otherwise determined by the City Council, be utilized only to compensate for unforeseen circumstances requiring additional funds to complete the project within the original project scope and identified needs.

For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of contract award the project's budgeted appropriation, including contingency, will be replaced with a new appropriation equal to the approved project contract contingency developed in the manner described above.

The City Administration shall seek ways of ensuring that administrative costs of carrying out the Capital Improvement Program are kept at appropriate levels.

The Annual Capital Budget shall include only those projects which can reasonably be accomplished in the time frame indicated. Multi-year budgeting of projects shall be used to ensure a reasonable time frame for projecting costs. The detail sheet for each budgeted capital project should include a projected schedule.

The status of all capital projects, and the entire Capital Budget, will be monitored by the full Council as part of the Mid-Year Budget Review. Large projects of crucial importance may be monitored on a more frequent basis, as determined by the City Council.

Capital projects which are not encumbered or completed during the fiscal year will be rebudgeted to the next fiscal year except as reported to and subsequently approved by the City Council. All rebudgeted capital projects should be so noted in the Proposed Capital Budget.

##### **2. *Capital Improvement Plan Policies***

Citizen participation in the Capital Improvement Program is a priority concern for the City. Among the activities conducted to address this need are the following:

- a) The Capital Improvement Plan shall be provided to the City Council in a timely manner as required by the City Charter to allow for Council members to review the proposal with constituents before it is considered for adoption.
- b) Council Budget Review Study Sessions on the Capital Improvement Plan shall be open to the public and advertised sufficiently in advance of the meetings to allow for the attendance of interested citizens.

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**BUDGET POLICIES (CONT'D.)**

**B. Capital Improvement Program (Cont'd.)**

***2. Capital Improvement Plan Policies (Cont'd.)***

- c) Prior to the adoption of the Capital Improvement Plan the City Council shall hold noticed public hearings to provide an opportunity for citizens to express their opinions on the proposed plan.
- d) The City Planning Commission shall review the proposed Capital Improvement Plan and provide their comments on its contents before the Council considers the plan for adoption.

All projects included in the Capital Improvement Program shall be consistent with the City's General Plan. The services and facilities and transportation goals and policies should be followed in the development of the Capital Improvement Plan. The General Plan service level goals will be clearly stated in the Capital Improvement Program.

Capital projects shall be financed to the greatest extent possible through user fees and benefit districts where direct benefit to users results from construction of the project.

The Council will annually review and establish criteria against which proposed capital improvement projects should be measured. Included among the factors that will be considered for priority ranking are the following:

- Projects that have a positive impact on the operating budget (reduced expenditures, increased revenues);
- Projects that are programmed in the Five-Year Operating Budget Forecast;
- Projects that can be completed or significantly advanced during the Five-Year Capital Improvement Plan;
- Projects that can realistically be accomplished during the year they are scheduled;
- Projects that implement prior Council-adopted reports and strategies.

Projects that involve inter-governmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.

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**BUDGET POLICIES (CONT'D.)**

**B. Capital Improvement Program (Cont'd.)**

***3. Debt Policies***

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